



2006 Annual Report



60 Years of Service to Saskatchewan

Corporate Mandate

The Saskatchewan Transportation Company is a Crown Corporation of the province of Saskatchewan. It was established by Government Order In Council in 1946. Its operations are governed by its Board of Directors, under the authority of *The Crown Corporations Act, 1993*.

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.



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Letter of Transmittal



Regina, Saskatchewan
March 31, 2007

To His Honour
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the
Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2006, in accordance with *The Crown Corporations Act, 1993*. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Sir,
Your obedient servant,

A handwritten signature in dark ink, appearing to read 'E. Lautermilch', written in a cursive style.

Eldon Lautermilch,

Minister Responsible for the
Saskatchewan Transportation Company

Report of the Chair of the Board



Janet Folk, Chair of the Board

For 60 years, the Saskatchewan Transportation Company has provided services which have been of great value to the people of Saskatchewan.

STC began its operations in April 1946 using a fleet of only seven used coaches, with capacities ranging from nine to 28 passengers. Today, the company operates a fleet of 45 coaches, with capacities that vary from 15 to 55 passengers. STC buses travel nearly 3.2 million miles annually, providing passenger and express services to some 278 communities. The company has grown and evolved along with the province it serves.

STC has a broad impact on the socio-economic life of the province; whether we are taking a person from a rural community to a medical appointment in the city, or a student in university home for the weekend, as part of the 280,000 passengers we carry in a year; whether we are moving samples from veterinarians in the province to provincial laboratories or getting Avon cosmetic products out to dealers across the province, as part of the 1.5 million to two million pieces of freight we carry in a year; or whether we are taking our university sports teams to their events elsewhere in Canada.

Like the people of Saskatchewan, we are deeply concerned about maintaining a sustainable environment, and we want to do our part. We know that buses are already the most environmentally friendly means of moving people to their destinations. We want to make it even more so. That is why, in 2006, we started a one-year pilot project with one half of our fleet of buses running on a two per cent bio-diesel fuel mix. We look forward to the results of this project in the spring of 2007, and, if all goes as hoped, we will be running our entire fleet on this cleaner-burning fuel mixture from that time forward.

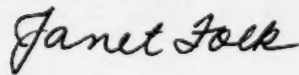
Just as we have confidence in the Province of Saskatchewan, we have confidence in the future of STC. One manifestation of this confidence in STC is in the form of the new \$25.5 million Regina passenger and freight depot and head office facility, which began construction in 2006. This new facility will address the numerous deficiencies of the current building and will provide a safe, functional and aesthetically pleasing building for our passenger and express customers and for our staff.

STC, like the people of Saskatchewan it serves, is a resilient problem-solver as challenges and difficulties present themselves. For more than a decade, the bus industry in the less densely populated areas of North America has been in decline. The general increase of affluence in our society and improvements to our highway systems, combined with the preference of the majority of people to enjoy the convenience of their own automobiles, had resulted in reductions in bus passenger numbers.

While the broad socio-economic conditions affecting the bus passenger industry could obviously not be changed by STC, the Board of Directors nevertheless felt that more could be done to promote the use of STC's services. Accordingly, we talked to the people of Saskatchewan about what improvements they would like to see to our service, and we listened to what they had to say. We marketed our strengths and abilities throughout the province. And it seems to have worked. In 2005, we saw a 3.6 per cent increase in the number of passengers we carried, compared to 2004. And I am happy to report, in 2006, we saw those numbers increase 4.5 per cent over the 2005 count.

Like the people of our province, we are frugal, and recognize the value of a dollar. For 2006, an operating grant of \$5 million from the Crown Investments Corporation had been approved in the budget for the year to help finance our operations. But, because we were able to reduce expenditures below the budgeted level and grow our revenues, we were able to reduce the operating grant subsidy by \$1 million below that level.

The Board of Directors of STC is proud of the 60 years of continuous service that STC has provided to the people of this province. We are confident that with its record of adaptability and the commitment of its employees, the company is well positioned to provide many more decades of quality service.



Janet Folk,
Chair of the Board

Governance, Compliance and Accountability

The Board of Directors of the Saskatchewan Transportation Company believes the company, as a Crown corporation of the Government of Saskatchewan, owes a duty to taxpayers to demonstrate that STC is open, accountable and properly managed.

To that end, this Annual Report follows "best practices" as outlined by such agencies as the Conference Board of Canada and the Toronto Stock Exchange in disclosing relevant information. This report meets or exceeds all the requirements for disclosure as set out for Saskatchewan Crown corporations by the Crown Investments Corporation of Saskatchewan.

In this section, the responsibilities of the Board of Directors are laid out in accordance with the "best practices" for corporate governance, as developed by the Canadian Securities Administrators.



*Standing left to right: Leo Weaver, Neil Hoffenberg, Corporate Secretary, Cecile DeBray, Garry Pearce, Shauna Young, Wally Sotski.
Seated left to right: Ray Clayton, President and CEO, David Fries, CFO, Wayne Timoffee, Holly Ann Knott, Vice Chair*

Board of Directors

- **Janet Folk**, Chair, Regina, Pensions and Benefits Manager, City of Regina, **unrelated**
- **Holly Ann Knott**, QC, Vice Chair, Saskatoon, Lawyer, **unrelated**
- **Cecile DeBray**, Member, Duck Lake, Manager, Saskatchewan Housing Authority, **unrelated**
- **Wally Sotski**, Member, Yorkton, Business President, **unrelated**
- **Wayne Timoffee**, Member, Prince Albert, Funeral Director, **unrelated**
- **Leo Weaver**, Member, Regina, Motor Coach Operator, STC, ATU representative, **related**
- **Garry Pearce**, Member, Regina, Chartered Accountant, **unrelated**
- **Shauna Young**, Member, Pense, Staffing Consultant, Public Service Commission, Youth Member, **unrelated**

Objectives and Principal Duties

1. The function of the Board of Directors is to act as stewards of the Corporation. The Board has a statutory authority and obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, Corporate plans and management performance.
2. In discharging its obligations, the Board's principal duties are:
 - a) to provide leadership in setting the Corporation's long range strategic direction, and to approve the Corporation's overall strategic plan, operating goals, operating budget, performance indicators and the business plans established to achieve them;
 - b) to participate with management in identifying the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and potential returns to oversee the implementation of appropriate systems to manage the risks;
 - c) to appoint, monitor and evaluate the performance of the President and CEO, taking appropriate action as warranted, and to provide for effective succession planning;
 - d) to adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public;
 - e) to ensure the integrity of the Corporation's internal control and management information systems; and
 - f) to develop practices to ensure that the Board functions independently of management.

Legal and Compliance Responsibilities

1. The Board has a responsibility to see that procedures are in place to ensure statutory responsibilities are met, that an effective Corporate compliance program has been established, and that Corporate documents and records are properly prepared, approved and maintained.

Audit and Finance Committee

1. Composition

The committee is made up of four Directors of the corporation, with Garry Pearce as Chair. The other members are Janet Folk, Holly Ann Knott and Wally Sotski. The committee is appointed annually by a resolution of the Board. No members of this committee are related Directors.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

- (a) oversee the financial management of STC to ensure the integrity of internal financial processes;
- (b) provide relevant and timely financial information to the Board; and
- (c) oversee the appointment of the external auditor and ensure proper follow up of audit results.

Governance and Corporate Responsibility Committee

1. Composition

The committee is made up of four Directors of the corporation, with Wayne Timoffee as Chair. The other members are Cecile DeBray, Leo Weaver and Shauna Young. Chair Janet Folk is ex-officio. The committee is appointed annually by a resolution of the Board. One member of this committee is a related Director.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

- (a) be responsible for, and report to the Board concerning the corporate governance processes of the Board, and the strategic planning processes of the Corporation;
- (b) oversee the Corporation's human resource strategies, programs and practices; and
- (c) ensure the Corporation is proactive in addressing safety, health and environmental issues and is in compliance with all statutory requirements.

Corporate Governance Guidelines

	Already in Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Composition of the Board			
The majority of the board is composed of independent directors.	X		
The Chair of the board is an independent director. If this is not appropriate, an independent director has been appointed to act as lead director and acts as the effective leader of the board to allow the board to carry out its duties.	X		
Meetings of the Board			
The independent directors hold regularly scheduled meetings without non-independent directors and members of management being in attendance		X (not all meetings)	
Board Mandate			
The board has a written mandate outlining its responsibilities.	X		
<i>This mandate includes responsibility for the following items:</i>			
Satisfying itself as to the integrity of the CEO and other executive officers,	X		
Ensuring that the CEO and other executive officers create and cultivate a culture of integrity throughout the organization;	X		
Adopting a strategic planning process which includes the risks and opportunities facing the organization;	X		
Annual approval of the strategic plan;	X		
Identification of the principal risks facing the business;	X		
Ensuring the implementation of systems to manage these risks;	X		
Succession planning;	X		
Adopting an effective communications policy (guidance per NP51-201 Disclosure Standards);	X		
The internal control and management information systems;	X		
Developing the organization's approach to corporate governance (i.e. set of principles and guidelines);	X		
Establishing measures by which stakeholders can communicate with the board; and	X		
Establishing the expectations and responsibilities of directors	X		
Position Descriptions			
<i>The board has developed clear position descriptions of the following:</i>			
Chair of the Board;	X		
Chair of each board committee; and	X		
The CEO.	X		
The board develops/approves the corporate goals and objectives that the CEO is responsible for meeting.	X		
Orientation and Continuing Education			
<i>The board ensures that all new directors receive a comprehensive orientation which encompasses the following items:</i>			
The role of the board and its committees;	X		
The contribution (in terms of time and resources) each individual director is expected to make; and	X		
The nature and operation of the business.	X		
The board ensures that continuing education opportunities are provided to allow all directors to maintain and enhance their skills and abilities as directors as well as ensuring that their knowledge and understanding of the business remains current.	X		

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Code of Business Conduct and Ethics			
The board has adopted a written code of business conduct and ethics which is designed to promote integrity and to deter wrongdoing, and is applicable to all directors, officers and employees of the organization.	X		
<i>The code specifically addressed the following issues:</i>			
All conflicts of interest;	X		
Protection and proper use of corporate assets and opportunities;	X		
Confidentiality of corporate information;	X		
Fair dealing practices (with security holders, customers, suppliers, competitors and employees);	X		
Compliance with legal and regulatory matters; and	X		
Reporting of illegal or unethical behaviour.	X		
The board monitors compliance with the code.	X		
Waivers from the code are solely granted by the board or a board committee.	X		
Any material departure from the code is considered to be a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations and is treated as required by this National Instrument.	X		
Nomination of Directors			
The board has appointed a nominating committee which is composed entirely of independent directors.	X		
The nomination committee has a written charter.	X		
<i>This charter clearly established the following:</i>			
The committee's purpose;	X		
Requirements as to member qualification;	X		
Procedures for member appointment and removal;	X		
Structure of the committee; and	X		
Operation of the committee (including authority to delegate to individual members or subcommittees).	X		
The nominating committee has been given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	X		
Prior to nominating or appointing any individuals as directors, the board has adopted processes to consider what competencies and skills the board should possess as a whole, and to assess what competencies and skills each existing director possesses.	X		
Prior to recommending new directors to the board, the nominating committee considers what competencies and skills the board considers necessary for the board to possess as a whole; the nominating committee assesses what competencies and skills the board considers each existing director to possess; and the nominating committee considers the competencies and skills each new nominee will bring to the boardroom.	X		
Attention is given to the personality and other skills of each director, as these contribute to the determination of the boardroom dynamic.	X		
The board considers what is the appropriate size of the board, with a view of facilitating effective decision making.	X		

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Compensation			
The board has appointed a compensation committee which is composed entirely of independent directors.	X		
The compensation committee has a written charter.	X		
<i>This charter clearly establishes the following:</i>			
The committee's purpose;	X		
The committee's responsibilities;	X		
Requirements as to member qualification;	X		
Procedures for member appointment and removal;	X		
Structure of the committee;	X		
Operation of the committee (including authority to delegate to individual members or subcommittee); and	X		
Manner of reporting to the board.	X		
The compensation committee has been given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	X		
<i>The compensation committee has assumed responsibility for the following issues:</i>			
The review and approval of corporate goals and objectives relevant to CEO compensation;	X		
The evaluation of the CEO's performance in respect of these goals/objectives;	X		
The determination and recommendation to the board of the CEO's compensation level;	X		
The recommendation to the board of non-CEO officer and director compensation, incentive plans and equity based plans; and	X		
The review of executive compensation disclosure before the issuer publicly discloses this information.	X		
Regular Board Assessments			
The board is regularly assessed regarding its effectiveness and contribution. This assessment considers the board's mandate.	X		
Each board committee is regularly assessed regarding its effectiveness and contribution. This assessment considers the committee's charter.	X		
Each individual director is regularly assessed regarding his or her effectiveness and contribution. This assessment considers the individual's position description(s) and competencies and skills they are expected to bring to the board.	X		

- Established 1946 by Order-In Council; has operated continuously
- Serves 278 communities in Saskatchewan
- Operates 28 bus routes, travelling nearly 3.2 million miles per year
- Has a fleet of 45 coaches and vans, varying in size from 55-seater to 15-seater, as well as a freight truck and freight trailers
- Has 190 agents operating in rural Saskatchewan
- Operates passenger and express depots in Regina, Saskatoon and Prince Albert
- Operates service garages in Regina and Saskatoon
- Maintains its Head Office in Regina
- Employs 244 people (199 full-time, 38 part-time and seven temporary); 216 employees are in-scope, 28 employees out-of-scope. In-scope employees are represented by the Amalgamated Transit Union, Local 1374
- Has an annual payroll of \$9.7 million
- Has assets of \$24.3 million (2005 – \$21.2 million)
- Operating expenditures of \$21.2 million (2005 – \$20.3 million); Revenues of \$15.5 million (2005 – \$14.9 million)
- Capital expenditures of \$4.5 million (2005 – \$3.8 million)

2006 Corporate Profile

Company Facilities:

STC owns and operates passenger and freight depots in Regina, Saskatoon, and Prince Albert. It owns and operates service garages in Regina and Saskatoon. It owns, but does not operate, a passenger and freight terminal in Moose Jaw.

The Saskatoon passenger depot is approximately 32 years old, the express depot is 29 years old, and the garage is 24 years old. Regular insurance inspections ensure the facilities are kept in sound structural order, but there is potential for the passenger depot roof to require major renovations in the future. No major maintenance or structural work was done in 2006.

The Regina passenger depot is approximately 54 years old, and the express depot is 30 years old. Both are in need of significant structural and maintenance work. In the spring of 2005, authority was given by the Government of Saskatchewan to begin planning work and land assembly for a new Regina passenger and express depot and head office facility. A contract was awarded for construction in October of 2006, and work is currently underway.

The Regina garage is 58 years old, with major additions done in 1975 and 1989. No major work was done to the facility in 2006. Regular insurance inspections ensure the facility is kept in sound structural order, but major roof renovations are likely to be required in the future.

The Prince Albert depot is 12 years old. Regular insurance inspections ensure the facility is kept in sound structural order. No major structural or maintenance work was done in 2006.

The Moose Jaw depot is 11 years old. Regular insurance inspections ensure the facility is kept in sound structural order. No major structural or maintenance work was done in 2006.

For some 35 years, STC maintained a storage shed for its coach in the Department of Highways maintenance and storage compound in Meadow Lake. In March of 2006, the building was moved from the site and disposed of. STC is currently renting a storage facility in the community from a local provider.

Passenger Services:

This unit is responsible for all aspects of ensuring STC's passengers enjoy a safe and reliable trip. Within this unit are the Motor Coach Operators, Passenger Service Attendants and Custodians, making it STC's largest employee complement. The rural agencies provide services to this unit as well.

Express Services:

This unit is responsible for freight and baggage handling for STC and connector buses, with staff in all three depots. It delivers and receives freight to and from customers. Pick-Up and Delivery services are available in Regina, Saskatoon and Prince Albert as well as some rural agencies.

Maintenance:

The primary responsibility of this unit is the maintenance, cleaning and storage of all company vehicles, which is done in service garages in Saskatoon and Regina. It is responsible for on-the-road servicing of coaches, when required. This unit also provides maintenance, cleaning and storage to coaches of other carriers, done on a contract basis.

Finance:

This unit is responsible for the collection of revenues from customers and the payment of STC's suppliers. It has sub-units for billing, accounts receivable and collections, accounts payable, agencies, and refunds (billing and paying connecting carriers, such as Greyhound, for services rendered). It is responsible for the company's budgeting, financial forecasting, corporate insurance and internal controls.

Information Systems:

This unit is responsible for the procurement of all corporate hardware and software. It ensures the reliability and integrity of data, electronic communications, software applications and web services to provide staff, customers and partners throughout the province with current, up-to-date computer systems and information.

Human Resources:

This unit handles all staff recruitment and placement, co-ordinates training, and administers compensation and benefit programs. It negotiates the Collective Bargaining Agreement and administers contract compliance between the company and the union. It is responsible for Occupational Health and Safety, anti-harassment programs, employment equity programs, accessibility programs, return to work programs and employee assistance programs.

Strategic Planning and Communications:

This unit is responsible for corporate communications, internally and externally. It is responsible for the preparation of corporate documents such as the Annual Report and Strategic Business Plan. It liaises with other Crowns and government agencies. It is responsible for forward planning and issues management for the company.



**STC started service in 1946
with seven used buses,
with a passenger capacity
ranging from nine persons
to 28 persons.**

**60
YEARS
1946-2006**

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The Regina passenger depot is approximately 51 years old, and the express depot is 30 years old. Both are in need of significant structural and maintenance work. In the spring of 2005, authority was given by the Government of Saskatchewan to begin planning work and land assembly for a new Regina passenger and express depot and head office facility. A contract was awarded for construction in October of 2006, and work is currently underway.

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Express Services:

• Express Mail®
• Priority Mail®
• Registered Mail®
• Signature Confirmation®
• Insured Mail®

Maintenance:

• Fleet Management
• Vehicle Maintenance
• Tire Services
• Oil Changes
• Wash & Wax

Finance:

• Fleet Financing
• Leasing
• Insurance
• Repairs & Maintenance

Information Systems:

• Fleet Management
• Vehicle Maintenance
• Tire Services
• Oil Changes
• Wash & Wax

Human Resources:

• Fleet Management
• Vehicle Maintenance
• Tire Services
• Oil Changes
• Wash & Wax

Strategic Planning and Communications:

• Fleet Management
• Vehicle Maintenance
• Tire Services
• Oil Changes
• Wash & Wax



STO started service in 1948
with seven used buses,
with a passenger capacity
ranging from nine persons
to 28 persons.



Report of the President



Ray Clayton, President and CEO

In April of 1946, the Government of the day decided that there was a need for a reliable, province-wide bus transportation service to link the communities of Saskatchewan, and created the Saskatchewan Transportation Company.

Sixty years later, some may ask if that need still exists. The simple answer is that it does. For example, public opinion polling conducted by the company in the fall of 2006 showed us that 94 per cent of Saskatchewan residents felt STC provided an important service to the province, and 87 per cent said we provide an important service to their particular community.

In the past 60 years, the demographics of the province have changed significantly. Highways have been improved, and more people are able to afford their own automobiles. These developments have resulted in fewer people relying on public transportation than in the past. However, there are sizeable numbers of people who still rely on STC. It is the responsibility of STC to ensure that those who decide to use our company receive high quality services compatible with their needs and preferences.

Since its inception, STC has maintained a reputation for safety, courtesy, reliability and affordability. Saskatchewan people have come to know that when they need to use a bus service, we will be there for them.

But it takes more than a reputation for doing a job, and doing it well, to keep a company strong for 60 years. Adaptation to changing circumstances, innovation and an ongoing commitment to quality are critical.

Responding to the needs of the day is demonstrated by the construction of a new Regina passenger and freight depot and head office. When it became clear that the existing facilities in Regina could no longer meet the needs of our customers and staff, a new facility was designed which will emphasize comfort, safety and functionality. It is designed to enhance the flow of express parcels and passengers through the facility and to give our staff a more efficient workspace. It will exceed energy efficiency standards, be fully accessible for persons with disabilities and will be aesthetically pleasing for the surrounding neighbourhood.

Construction of the new \$25.5 million facility began in October of 2006, and will be completed in early 2008.

STC has also had to address the worrisome trend of persistent declines in the number of passengers using our service. While STC is certainly not alone in the less densely populated areas of North America in facing this trend, it was becoming a very serious threat to the viability of the service.

Starting in 2004, STC worked to correct a number of shortcomings in our service that were pointed out by our customers and the general public. Along with improvements to our service, we started a more aggressive marketing campaign, which was largely aimed at two of our most important passenger groups, young people under the age of 25, and those aged 60 or older.

We also introduced innovative programs, such as the Youth Summer Excursion pass, which allowed people aged 15 to 25 unlimited use of our service for the months of June, July and August for one low price. When the program was introduced in 2005, it was a huge success, with more than 700 passes sold. The program was repeated in 2006, with the cost of the pass increasing by \$25 to \$100. It was still a successful program, with some 400 passes sold. This pass has been a good way to introduce young people to our service, and build a future customer base.

Thus far, our actions to deal with the decline in passengers seem to have met with success. In 2005, the number of passengers served by STC actually increased by 9,389, or about 3.6 per cent. That was the first increase in ridership in 15 years. And, in 2006, we saw a further increase in our ridership of 11,987 persons, or 4.5 per cent. Beginning in 2007, we have set a corporate goal of increasing our ridership by at least one per cent a year for the next five years.

We demonstrated our commitment to do our part in promoting a sustainable environment and addressing greenhouse gas emissions by introducing a pilot program on the use of bio-diesel fuel in our coaches. In April, we began a one-year trial under which approximately 50 per cent of our fleet is running with a two per cent bio-diesel mixture. After the trial period, we will examine what impact the use of this mixture has had on fuel efficiency and engine lubricity (which contributes to longer engine life), to determine if there is merit in using the bio-diesel product in our entire fleet.

In accordance with our mandate to provide service on as wide a basis as possible, in 2006, STC carried 279,372 passengers 3.2 million scheduled miles to and from 278 communities.

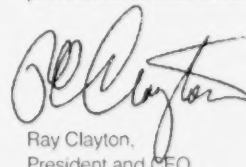
STC's revenues grew to \$15,493,000 in 2006 from \$14,859,000 in 2005. Operating expenditures increased to \$21,238,000 from \$20,297,000. The main increases in our costs were for salaries and fuel for our buses.

The capital grant increased from \$3.9 million in 2005 to \$4.25 million in 2006, due to costs associated with the construction of a new Regina facility.

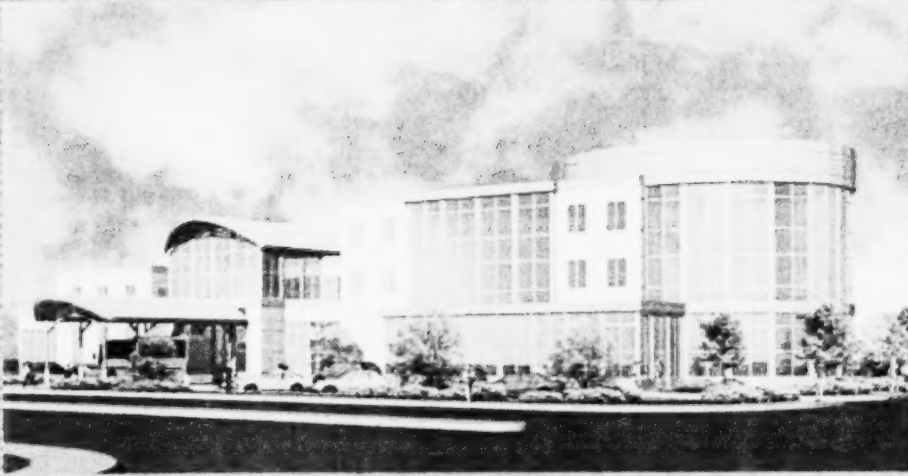
STC had budgetary approval for an operating grant subsidy from the Crown Investments Corporation of Saskatchewan of \$5 million for 2006. However, because of increased revenues and efforts to minimize expenditures wherever possible, we were able to reduce the actual subsidy needed by \$1.0 million down to \$4.0 million by the end of the year. It is interesting to note that in the 10 years STC has received an operating subsidy from CIC, in half of those years the company actually used less than what was approved, and has, in effect, given back some \$3 million to the province.

STC is mandated to provide the widest possible service in the province, and this means it will continue to operate a number of routes that just do not have the population or business base to generate the revenues required to cover all of the costs. As long as those areas of the province need our services, STC will, in all likelihood, continue to require a subsidy to provide those services.

Providing a quality public transportation service has been, and remains, a challenge. We at STC are proud that we have met the challenges and have maintained a strong and viable presence in Saskatchewan for the past 60 years. It is our full intention to continue to serve the province for at least another 60 years.



Ray Clayton,
President and CEO



KATCHEWAN TRANSPORTATION CENTRE

The first Regina bus depot was a converted schoolhouse, which served until the current facility was purchased in 1988.



Mission Statement

STC offers our customers convenient, affordable, safe, courteous and reliable passenger and express transportation services. We contribute to the province's economic growth, demonstrate social responsibility to its citizens and provide excellent value to our shareholders.

Vision Statement

We are Saskatchewan's standard for transporting people and goods. STC is your first choice, your best choice.

Corporate Values

We at STC believe that we can only do our job properly when we adhere to the following values:

- Honesty in all business transactions, in dealing with our staff, in dealing with our customers and in dealing with our stakeholders
- Dependability, not only in our vehicle operations, but in all facets of the company's work
- Ensuring the safety of our customers and our employees
- Never accepting this status quo as the best possible outcome for our stakeholders, searching for innovative solutions to the problems which arise and taking pride in our accomplishments, while admitting to our mistakes
- Developing a work environment which supports employment equity and offers opportunity for advancement to all employees
- Meeting all targets within our work units and within our corporation



Management Discussion and Analysis

In this MD&A, STC Management will discuss corporate trends in relation to the transportation bus industry, and will look at the company's three main components – passenger service, freight operations and maintenance – in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

In 2006, STC continued to operate a very cost-effective publicly-funded transportation system.

In 2006, STC received an operating grant from the government of \$4.0 million, which represented some 19 per cent of the company's overall expenses for the year. Due to increases in revenues and efforts to minimize expenditures, this grant is \$1 million less than the grant that had been budgeted for the year. In 2005, the operating grant received was \$3.5 million, or 18 per cent of the company's overall expenses.

Only two of STC's 28 bus routes have sufficient passenger numbers and freight volumes to generate the revenues required to cover all of the costs. As long as the mandate of STC remains to provide services on the widest possible basis, there will continue to be a need for a subsidy to cover part of the costs. It is one of STC's main responsibilities to keep that subsidy as low as possible.

For the second year in a row, STC has successfully fought against a trend towards a decline in passenger numbers. After 15 years of declines in its passenger numbers, STC saw an increase of 3.6 per cent in ridership in 2005. In 2006, there was a further increase of 4.5 per cent over the 2005 numbers.

There are a number of probable reasons for the turnaround in passenger numbers – a solid advertising program; renewed commitment by the company to ensure clean and comfortable coaches; and a youth excursion pass which attracted new riders. A large spike in the cost of fuel during part of the year may also have had an impact.

2006 was the 60th anniversary of the founding of STC. The company was established to ensure that as many people as possible in the province had access to safe, reliable transportation over Saskatchewan's vast distances. Much has changed over the past 60 years, including a rural-urban shift in population, a major increase in size of the provincial highways network, and increased incomes which have in turn significantly impacted the ownership of private vehicles. However after these 60 years, the company is still essentially delivering the same quality product.

Passenger Services

STC has the bulk of the inter-city bus passenger business in Saskatchewan. Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway), and there are a number of small, locally-based carriers, serving only specific areas, most of which inter-line with STC.

The company runs 28 routes in the province. The extent to which costs are recovered varies considerably from route to route. The company endeavours to match its bus fleet to passenger volumes on various routes. Accordingly, our units range in size from 15-seat vans to 55-seat coaches.

In 2006, STC received a capital grant of \$1.5 million for regular capital programs from its stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about 58 per cent was designated for the purchase of new buses and freight trailers. As well, the company received an operating grant of \$4.0 million to subsidize bus routes that have insufficient passenger numbers and freight volumes to recover costs.

A further capital grant of about \$2.75 million was received for costs associated with the new Regina facility.

In 2006, STC operated just under 3.2 million miles of scheduled bus service in the province, providing connections to 278 communities. It carried 279,372 passengers, an increase of 11,987 or 4.5 per cent from 2005.



The company's cost per mile of carrying passengers was \$3.56, and the revenue per mile generated by passengers was \$2.34. This represents an average subsidy of \$1.22 per mile.

There were only slight changes made to STC's scheduled service in 2006.

In 2006, STC's revenues from passenger service were \$7,452,000, compared to \$7,102,000 the previous year. This was due to increased ridership during the year and a 4.5 per cent increase in passenger fares.

Its operating expenses were \$11,570,000, compared to \$10,998,000 in 2005.

STC's strengths in the passenger industry are two – that it is the only bus operator in a large portion of the province, and its name recognition.

Its major weakness lies in the changing demographics of the province, which results in a shrinking potential marketplace. This is a major contributing factor to the ongoing challenge of maintaining ridership.

Opportunities for growth in the company in the bus passenger industry are limited. However, in 2005 and 2006, STC had considerable success with its Centennial Youth Excursion Pass, a one-time pass purchase that provided unlimited travel for a three-month period.

In 2006, STC sold 400 Youth Summer Excursion Passes, which garnered \$40,000 in revenues. The company paid \$59,656 to develop and promote the program. While there was a shortfall of \$19,656 in the program, it is looked upon as an investment in securing new riders for the future.

STC started its links to the North in 1948, with freight links to LaRonge, serving the mining, fishing and trapping industries.

50 YEARS
1948-2006



Operating Expenditures

Operating expenditures for the quarter ended March 31, 2008 were \$10.2 million, or 1.0% of sales, compared to \$10.0 million, or 1.0% of sales, for the quarter ended March 31, 2007. The increase in operating expenditures was primarily due to an increase in depreciation and amortization expense of \$0.2 million, or 0.2% of sales, and an increase in selling, general and administrative expenses of \$0.1 million, or 0.1% of sales.

Depreciation and amortization expense for the quarter ended March 31, 2008 was \$0.2 million, or 0.2% of sales, compared to \$0.1 million, or 0.1% of sales, for the quarter ended March 31, 2007. The increase in depreciation and amortization expense was primarily due to an increase in depreciation expense of \$0.1 million, or 0.1% of sales, and an increase in amortization expense of \$0.1 million, or 0.1% of sales.

Selling, general and administrative expenses for the quarter ended March 31, 2008 were \$0.1 million, or 0.1% of sales, compared to \$0.1 million, or 0.1% of sales, for the quarter ended March 31, 2007. The increase in selling, general and administrative expenses was primarily due to an increase in salaries and wages of \$0.1 million, or 0.1% of sales, and an increase in other expenses of \$0.1 million, or 0.1% of sales.

Interest expense for the quarter ended March 31, 2008 was \$0.1 million, or 0.1% of sales, compared to \$0.1 million, or 0.1% of sales, for the quarter ended March 31, 2007. The increase in interest expense was primarily due to an increase in interest expense of \$0.1 million, or 0.1% of sales, and an increase in other expenses of \$0.1 million, or 0.1% of sales.

Operating Profit

Operating profit for the quarter ended March 31, 2008 was \$0.1 million, or 0.1% of sales, compared to \$0.1 million, or 0.1% of sales, for the quarter ended March 31, 2007. The increase in operating profit was primarily due to an increase in operating profit of \$0.1 million, or 0.1% of sales, and an increase in other expenses of \$0.1 million, or 0.1% of sales.

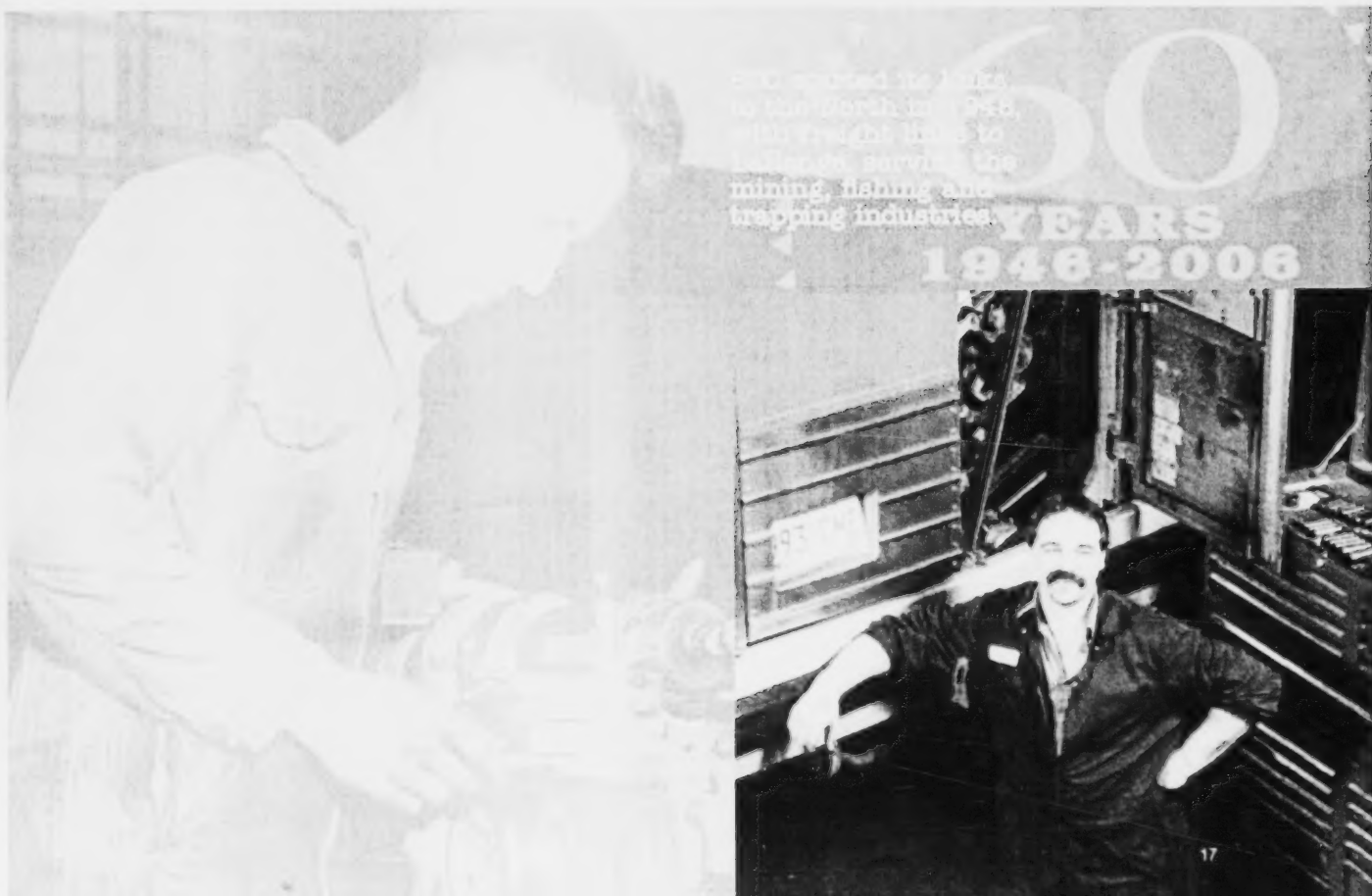
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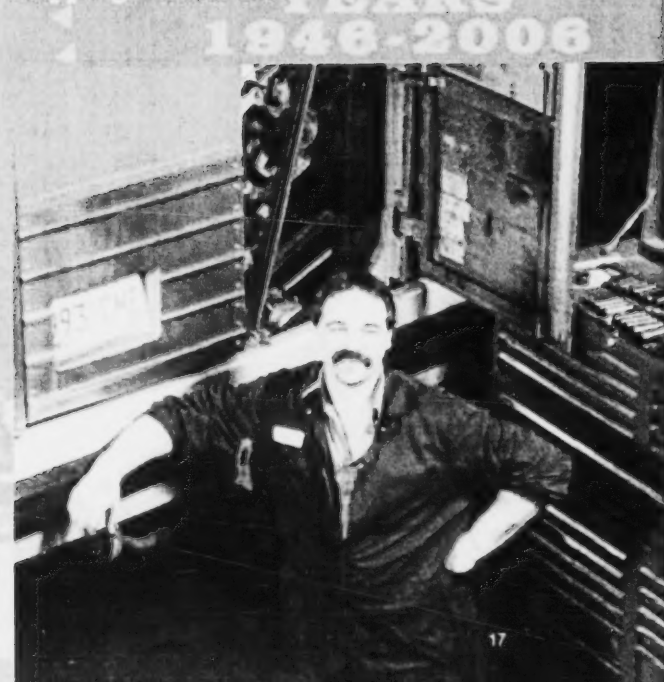
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60 YEARS
1946-2006



STC will continue to examine partnerships with other industries and other sources of revenue to try and enhance its revenues.

As well, the company continued its awareness advertising campaign aimed at specific market niches in an effort to grow and preserve its client base.

An ongoing threat to the company's passenger operations lies in the province's changing demographics. Continued urbanization, reliance on private automobiles, and the existence of an extensive highway system will tend to further erode the company's client base.

A threat facing the passenger service remains the possibility of deregulation of the intercity bus industry in Canada. Should bus service be deregulated, companies like STC will be "cherry-picked", which means it would be facing competition for customers on its profitable routes, while leaving STC to service the non-profitable routes.

Deregulation of the industry is a matter for the Federal Government, and while considerable work was done in this area in 2004 and 2005, STC has no indication of any action which was taken on this file by the Government in 2006.

STC's passenger operations account for 87 full-time, in-scope and 12 part-time, in-scope employees.

Parcel Express Services

STC operates its freight business in a fully-competitive environment. Other bus services, trucking firms and courier services, as well as Canada Post all offer this service in the province.

In addition to providing overnight depot-to-depot service (in most cases), the company also provides a door-to-door pick up and delivery service in the major centers.

Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses have the capacity to carry freight as well as passengers, so it makes sense to do so.

In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, and farm usage.

STC has continued to equip some of its buses with trailers to carry additional freight, which allows the company to increase its hauling capacity and revenue-generating capabilities with only a minimal effect on expenditures.

Freight operations at STC garnered \$6,932,000 in revenues for 2006, compared to \$6,737,000 in 2005. Expenditures were \$4,636,000, compared to \$4,346,000

the previous year. That meant a profit of \$2,296,000 compared to \$2,391,000 the previous year.

Due to the extremely competitive nature of the freight business, STC has limited room within its tariff schedule for increases. There was a 7.0 per cent increase in freight tariffs in 2006.

STC's greatest strength in the freight business is the synergies it has with the passenger service. Since the buses are running on a large network anyway, with room to carry freight, any additional over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

Other strengths of the company are name recognition, and its ability to provide next day delivery throughout much of the province. As well, it is one of the very few delivery systems in the province which provides weekend service to many points in Saskatchewan.

STC is very well suited for the transportation of parcels in the one-pound to 30-pound range, which makes up approximately 80 per cent of its freight business. A lot of this is the result of walk-in, rather than regular, customers.

A major weakness is that it is difficult for freight tariffs to keep current with increasing costs. While STC rates are still somewhat below Western Canadian averages for bus parcel express service, some firms have been offering deep discounts that attract some major customers away from STC.

Increasing rates is not a sustainable method for the company to increase revenues. The competitive nature of the express business now fully dictates STC's express rates, and is currently keeping those rates low. Any sharp increases could result in a loss of market share.

The main threat to STC's express service is deep discount pricing by competitors, which is sometimes difficult for STC to match because of its fixed costs – mostly labour.

The freight component of the business has 38 full-time in-scope and 19 part-time, in-scope, as well as five temporary in-scope employees.

Maintenance Services

STC operates two service garages in the province, one in Saskatoon and one in Regina. Since 2003, major maintenance work has been consolidated in the Saskatoon garage. The Regina facility still performs minor maintenance and servicing, as well as safety inspections.

Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because of the size of its facilities and the level of service provided, STC performs maintenance service for a number of other bus operators in the province.

In 2006, maintenance services cost the company \$3,081,000 compared to \$3,015,000 in 2005. Performing service for other operators brought in \$660,000 in revenues, compared to \$672,000 in the previous year.

STC's maintenance strength is its staff, with their commitment to safety and quality work. Another area of strength is the homogenous nature of its fleet, which allows for improved training and streamlining of the parts inventory.

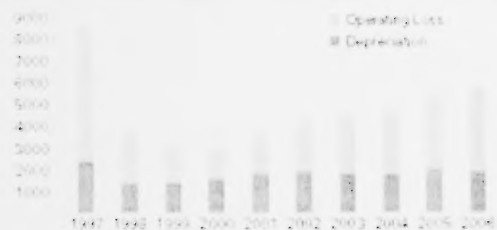
Its weakness in this area is the need, because of the geographic size of the province, to operate two facilities rather than one.

The maintenance operation has 29 full-time in-scope and seven part-time, in-scope, as well as two temporary in-scope staff.

Total Revenue (\$000's)



Operating Deficits (\$000's)



In the early years of service, luggage and freight was carried on the roofs of the buses, leaving them open to the elements.



Other Issues

Other Revenues

In an effort to minimize the amount of subsidy required for STC to continue with its current services, the company looks to sources additional to its main lines of business to enhance its revenues.

One of these options is providing maintenance, cleaning and storage services to other bus companies. This has proven to be a good source of revenue for a number of years.

Over the years, there has been noticeable growth in "other" revenues in the area of charter operations. STC does not aggressively pursue charter opportunities and does not advertise the service. The company has neither coaches nor employees specifically designated for charters. However, if STC is approached with a request for charter service, and if there is a coach and driver available, the company will accept the business.

As a result of word-of-mouth promotion by satisfied clients, STC has seen a continuing demand for its charter services. In 2006, the company fulfilled 393 charters, bringing in revenues of \$543,000, compared to revenues of \$610,000 the previous year. There were two main reasons for the decline in charter revenues from 2005 to 2006. The first is that 2005 was an exceptional year, with the Canada Summer Games held in Regina and the celebration of Saskatchewan's Centennial. In addition, the shortage of motor coach operators in the latter half of 2006 meant that STC was unable to respond to certain requests for service, even though coaches were available.

STC does not plan to significantly expand its charter business in 2007 for two main reasons. One reason is that the current level of STC's charter activity optimizes the utilization and maintenance of our bus fleet, and we will not acquire additional buses specifically for the charter business. The other is the availability of private sector carriers to provide the service.

STC sets its charter rates with the intention of having them equal to or greater than the industry norm, and to enable STC to realize a profit on each of them. The company responds to requests and inquiries from charter customers, but does not promote or actively seek charter business. Requests for charters that STC is not able to provide are referred to the private sector operators.

The company also leases out excess space, primarily at the Saskatoon garage and Saskatoon depot. In 2006, this activity accounted for revenues of \$198,000.

The company is also in the field of bus advertising, which began in 1999. In 2006, revenues raised through bus advertising amounted to \$21,000, compared to \$31,400 the previous year.

In 2001, STC installed vending devices, specifically automatic banking machines, in its depots as another method of gaining revenues. The net revenues from this source amounted to \$12,000 in 2006, compared to \$7,600 in 2005.

Regina Facilities

In 2002, the company received the results of a facility audit conducted by the Canadian Human Rights Commission as part of an overall audit of the company's compliance with the *Employment Equity Act*. This audit found a number of significant deficiencies with the company's passenger depot in Regina, including such things as a lack of an elevator, and wheelchair accessible washrooms.

In order to bring the building up to the standards of the Act, significant changes were required.

After devoting significant time to examining possibilities and planning for a new structure, approval was given for the construction of a new Regina passenger and freight depot and head office, and construction was begun in October of 2006.

Other Facilities

As well as the Regina depot and express operations, STC has a garage in Regina, a garage in Saskatoon, and depots and express operations in Saskatoon, Prince Albert and Moose Jaw. All facilities receive regular insurance inspections. No large expenditures were made on maintenance of these facilities in 2006.

Environmental Impact

As a transportation company, STC's primary impact on the environment can be seen in any of three places – the consumption of fossil fuels, the storage of such fuels, and the handling of hazardous materials.

STC has in place an approved dangerous goods handling policy and its fuel storage is up to Code.

In 2006, STC began a year-long trial project where approximately half of its fleet is using a two per cent bio-diesel fuel mixture. In 2007, the results of the test will be evaluated to determine if the company will use bio-diesel for its entire fleet.

Some of the properties acquired for construction of the new Regina facility were in need of environmental remediation to remove pollutants and toxins from the soil. This was carried out to the satisfaction of the provincial regulators.

The company removed an underground fuel tank at its Saskatoon property and undertook the required remediation at a cost of \$24,000.

In 2006, STC was in compliance with all relevant environmental statutes and regulations.

Financial Status

STC is subsidized by grant funding for its operations. The company remains debt free.

Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2006 were \$4.25 million, compared to \$3.9 million in 2005. About \$0.9 million of the capital grant received in 2006 was allocated to purchase fleet assets. A large portion of the grant was directed towards costs associated with the new Regina facility.

In 2006, STC received \$4.0 million in operating grants from CIC to fund its operating losses.

STC anticipates that it will require \$6.0 million in the year 2007, in operating grants. The increase in grants is largely attributable to the increases in fuel and staff costs.

Because of its operating mandate to provide services on the widest possible basis, including the operation of routes with insufficient passenger numbers and freight volumes to recover costs, STC continues to incur yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2006, and does not expect to pay one in 2007.



Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who are all members of the Executive Council of Government, represents the interests of the ultimate stakeholders, the people of Saskatchewan. A Member of Executive Council has responsibility directly to the public for the operations of STC but does not sit on the CIC Board of Directors.

CIC, in consultation with the Crowns, has developed a long-term strategic plan and a method of evaluation.

STC is in full support of both the strategic objectives and of the evaluation methodology used by CIC. The company feels this is the best method available to not only ensure that it is meeting its social obligations to the people of Saskatchewan, but that it is also as transparent as it can be in terms of its current status and future direction.

The CIC strategic plan sets out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

1. **Customer:**
 - To exceed customer expectations for products and services.
2. **Financial Health:**
 - To help position the entire Crown sector to prosper.
 - To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.
3. **Mandate and Role:**
 - To incorporate the Crown sector's mission into each corporation's mandate and role.
 - To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.

4. **Public Purpose:**

- To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.
- To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic diversification and growth; representative workforces; skills training and development; technical innovation and development and environmental responsibility and stewardship.

5. **Human Resources:**

- To align human resources processes and practices to best deal with emerging sector wide issues and to support achievement of individual Crown corporation strategies.

Financial Integrity – The First Consideration

A Saskatchewan Crown corporation is, by definition, a business entity. It provides a service, for which it charges a fee. This is as true with STC as it is with any of the other CIC Crowns.

As a business, a primary concern of STC has to be its financial integrity. The corporation must ensure that the shareholders – the people of Saskatchewan – are getting the best possible value for the money invested.

In most business operations, this is measured by return on investment. In the case of Saskatchewan's Crown corporations, this is found in the dividend paid to the holding company, CIC, by the various Crowns.

STC is an obvious exception to this. As the company does not make a profit, but rather, receives a subsidy to enable it to provide services, it cannot pay dividends. Because the corporation is seen as a valued contributor to Saskatchewan society, its continued success is not judged solely on financial performance.

The indicators of STC's financial integrity are, therefore, different from most other Crowns. STC is evaluated on whether the amount of subsidy it receives is kept as low as possible and by the quality and magnitude of the services that are provided relative to the expenditures which are incurred.

Public Policy – The Second Consideration

As the Government of Saskatchewan defines a Crown corporation, it must be more than just a successful business endeavor; it must also serve a purpose in enhancing the quality of life in the province in a number of areas.

These areas are many and varied, including, but not limited to: providing a public service which would not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing employment equity opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

The corporation must not allow bottom line financial considerations to outweigh these other important parameters of success.

Each corporation, depending on such factors as its lines of business and its competitive circumstances, will take a different approach to attaining public policy goals.

STC is more financially challenged than other Crowns in terms of meeting its public policy purposes, but must nevertheless comply with these broader expectations.

Integration

Integration of the financial integrity and public policy parameters of a Crown's business is documented in the Performance Management Document, a contract drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the Performance Management Document.

The core of the Performance Management Document is the Balanced Scorecard, a reporting technique used to evaluate the Crown's planning process and its success in moving toward the goals it has set out.

This Balanced Scorecard, divided into quadrants, sets out a general purpose, plus specific targets in moving a corporation to that purpose, and the specific measuring devices to judge the corporation's success in its actions.

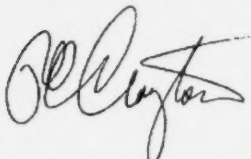
The Balanced Scorecard is not meant to be a static document and it evolves as required. The audited STC's Balanced Scorecard for 2006, including year-end results, as well as the 2007 targets, is set out below. There will be a significant difference between the 2006 and 2007 scorecards, as STC has chosen to cut down significantly on its indicators, and focus only on those which are high-level objectives of the company.

Management Responsibility for Reporting on Performance

Management has presented the performance information in the Balanced Scorecard so that it is, to the best of our ability, reliable (that is, reasonably free of errors or omissions and represents what it claims), consistent (that is, prepared using consistent policies and methods, explains significant variances, and reports results against previously approved targets), and understandable. To provide a better understanding of the information, management defined terms and calculations, and disclosed limitations.

Management has the primary responsibility for the integrity and objectivity of the performance information reported in the Balanced Scorecard. To fulfil this responsibility, the Company maintains appropriate systems of internal controls and procedures. These systems provide reasonable assurance that information presented is reliable and consistent.

On behalf of the Company, on March 22, 2007

A handwritten signature in black ink, appearing to read 'Ray Clayton', with a stylized, flowing script.

Ray Clayton, President & CEO

Auditor's Report on STC's Balanced Scorecard for 2006

To the Members of the Legislative Assembly of Saskatchewan:

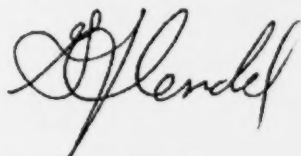
I have audited the information reported in STC's Balanced Scorecard for 2006. The information is prepared in accordance with the reporting principles of reliability, understandability, and consistency as described in Management Responsibility for Reporting on Performance.

The information is the responsibility of STC's management. My responsibility is to express an opinion on the reliability, understandability, and consistency of the information based on my audit. My audit was not designed to provide assurance on the relevance of the measures used or the appropriateness or fairness of information reported in the Balanced Scorecard.

I conducted my examination in accordance with standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the Balanced Scorecard information and related disclosures. An audit also includes assessing the principles used and the significant judgments made by management, as well as evaluating the overall presentation of the information reported in the Balanced Scorecard.

In my opinion, the Balanced Scorecard information STC has reported presents fairly, in all material respects, STC's results for 2006 in accordance with the reporting principles of reliability, understandability, and consistency as described in Management Responsibility for Reporting on Performance.

Public reporting of results is evolving and situations can arise that prevent full compliance with the reporting principles. Management has disclosed limitations to the Balanced Scorecard information when, in their judgment, it does not fully conform to the reporting principles. Management has fairly stated the limitations and why they exist. Readers are encouraged to use the Balanced Scorecard information to evaluate STC's results, keeping in mind the information's limitations.



Fred Wendel, CMA, CA
Provincial Auditor

March 22, 2007
Regina, Saskatchewan

Balanced Scorecard

We Meet the Needs of Our Customers				
Objective	Measure	2006 Target	2006 Final	2007 Target
Our customers are satisfied with the service they receive	Survey results	85% good or excellent rating	89%	86% good or excellent rating
We ensure our customers enjoy a safe environment	At-fault injuries caused	0	0	n/a
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better	82%	n/a
	Compared to Western Canadian industry average	3% below average	3.7% below	plus or minus 1% of average
Our staff and partners are trained to provide good quality customer service	Customer service training – number of staff trained:	60	61	n/a
	Increase in customer satisfaction – survey	1%	3%	n/a
	Agency meetings – number of agents met with:	40	31	n/a
Our routes serve a significant portion of rural Saskatchewan	Minimum miles travelled	3.1 M	3.2 M	3.1 M
	Communities served	275	278	275
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility – percentage of fleet:	20%	18%	20%
We take seriously what our customers say	Response time on customer complaints/inquiries and Ministerial referrals	5 days	4 days	n/a
We take seriously what the community says	Interest group meetings – number per year:	4	4	n/a

Business & Social Corporation Objectives				
Objective	Measure	2006 Target	2006 Final	2007 Target
We support development of the Saskatchewan economy, particularly rural economy	Minimum number of agents	195	190	n/a
	Buy Saskatchewan – percentage of expenditures:	71%	88%	81%
We support creating job and career opportunities for youth and Aboriginal	Help develop career training opportunities in the bus passenger industry – number of opportunities pursued:	1	4	1
We support development of e-commerce in the province	Web page – number of unique views	34,000	85,749	n/a
	Point of Sales/Billing technology	Evaluate new technical options	Evaluated new technical options	n/a
We support development of a representative workforce in the province	Percentage of new hires from federally-designated groups	40%	52%	n/a
	Percentage from each of four provincial target groups (% of new hires)	Women 25%; Aboriginal 15%; Visible minority 2%; Persons with disabilities 8%	Women 24.1%; Aboriginal 19%; Visible minority 7.6%; Persons with disabilities 1.3%	n/a
	Percentage from target groups in overall workforce	Women 23%; Aboriginal 11%; Visible minority 3%; Persons with disabilities 10%	Women 25%; Aboriginal 11.9%; Visible minority 3.3%; Persons with disabilities 8.2%	Women 26%; Aboriginal 11%; Visible minority 3%; Persons with disabilities 10%

Balanced Scorecard

We Are A Financially Responsible and Accountable Company

Objective	Measure	2006 Target	2006 Final	2007 Target
We live within the grants given us by our stakeholders	Operating grant	\$5.0M	\$4.0M	n/a
	Capital grant	\$10.7M	\$4.25M	n/a
We keep our operating costs as low as possible	Subsidy per mile	\$1.46	\$1.22	\$1.59
We look for non-traditional forms of revenue	Non-core revenues to grow 20 per cent in five years	4%	Negative 1%	n/a
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report	Meet or exceed	Met	n/a
	Reported comments from External and Provincial Auditors regarding our financial statements	Positive comments only	Positive comments only	n/a
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight	No more than 1 per year	0	n/a
We meet or exceed all Board governance requirements	Comply with "Best Practises" for Board governance	n/a	n/a	Full compliance
We keep our operating grant from the shareholder as low as possible	Operating grant as a percentage of overall expenditures	n/a	n/a	30%

Table A: High-Quality Employer

Objective	Measure	2006 Target	2006 Final	2007 Target
We are an employer of choice in Saskatchewan	Employee satisfaction surveys (conducted every second year)	Conduct employee survey	Survey conducted and results incorporated into 2007 HR Strat Plan	3% growth in employee satisfaction
	Unsolicited resumes received	90	189	n/a
	Web site hits on employment section	2,500	9,930	n/a
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Management/Union negotiations to continue	Parties prepared positions for CBA negotiations to begin in 2007	n/a
We work to promote a safe workplace	Workplace safety records – decrease in lost time accidents:	5%	9.5% increase	5%
We believe in career enhancing training for our employees	Safety training – number of staff trained	70	142	n/a
	Customer service training – number of staff trained:	60	61	n/a
We enjoy a positive, productive relationship with ATU Local 1374	Effective CBA in place	Yes	Yes	n/a
	Number of grievances resolved before arbitration	95%	93%	n/a
	Number of functioning joint management/union committees	7	8	n/a
We work to promote a safe workplace	Employees who receive safety training in the workplace:	n/a	n/a	40
We believe in career enhancing training for our employees	Number of staff receiving technical training and/or professional development	n/a	n/a	50

Balanced Scorecard

We are growing and improving				
Objective	Measure	2006 Target	2006 Final	2007 Target
We believe in growing our business operations within the public sector	Total annual contracts entered into with other public agencies	3	3	3
We believe in growing our business operations within the private sector	Total agreements/partnerships with provincial attractions; other transportation services and/or private businesses	3	2	3
We support building our future by protecting our environment	Develop "green" fuel policy	Evaluate pilot project and implement decision	Started expanded one-year test program on 50 per cent of coaches in second quarter	Evaluate test run of 2 per cent bio-diesel
	Newer, more fuel efficient coaches – average age in years	7.0 - 7.5	7.9	n/a
	Promote bus travel as environmentally friendly	n/a	n/a	Develop survey questions; develop advertising message
We strive to build our customer base and promote the company	Growth in passenger numbers, year over year	n/a	n/a	One per cent
Our depots and agencies are clean and inviting premises	Yearly customer surveys on service satisfaction	75%	88%	n/a
	Yearly customer surveys on cleanliness	75%	78%	n/a

Explanation of Terms and Variances:

We Meet the Needs of Our Customers:

1. Customer satisfaction – overall level of satisfaction our customers have with the service received while riding the bus. This information is obtained through annual voluntary passenger surveys conducted over the summer months. This usually means the total percentage of those who scored overall satisfaction as "good" or "excellent". A change in the survey instrument in 2006 meant this was scored using the percentage of those who said their satisfaction with the service was increasing. In 2007, the information-gathering will revert to what it was prior to 2006, which is felt to be a more reliable measure. **(Remains in 2007 Scorecard)**
2. Safe environment for customers – the number of accidents we have been responsible for which have resulted in injuries to our customers. These are preventable vehicular accidents with our coaches and could also include vehicle/pedestrian incidents. **(Removed from 2007 Scorecard)**
3. Competitive and satisfactory fares – level of satisfaction our customers express in surveys, a specific question on passenger surveys where customers are asked to rate fares as poor, fair, good or excellent. **Variance:** *Positive support was 8 per cent above target, possibly due to the introduction of the Seniors' Gold Way To Go Pass and the Summer Youth Excursion Pass.* **(Removed from 2007 Scorecard)**

Comparison to the industry standard uses the Western Canadian average fare, which is determined by the rates charged at the end of the year by Grey Goose Bus Lines in Manitoba and Greyhound Canada in Saskatchewan, Alberta and British Columbia. **Variance:** *Greyhound increased some fares in the last quarter of the year, whereas STC's fares had remained constant since the first quarter.* **(Remains in 2007 Scorecard, but target changed from 3 per cent below industry average to industry average +/- one per cent, to reflect a slightly more aggressive fare structure.)**
4. Customer service training – number of staff who have received in-house training on the "SaskBest" model; increasing customer satisfaction as seen in customer survey per point 1 – percentage change, 2005 to 2006 (the question varied somewhat from 2005 to 2006, as explained in point 1); and

Agency meetings – discussion with independent agents about customer service issues. Numbers are recorded cumulatively. **Variance:** *Although the meetings were held in three areas, as planned, the agents who responded to the invitation were fewer than anticipated.*

(All removed from 2007 Scorecard)

5. Minimum miles travelled – number of miles on regularly-serviced routes, plus overload services, but not including charter miles. Numbers recorded cumulatively; **(Remains in 2007 Scorecard)**

Communities served is all communities with at least a flag-stop service, where STC is the primary provider of bus transportation service. It includes only those communities on bus routes (or where minimum deviation from the main route is required) but does not include communities close to, but not on, the designated routes. This number should have little fluctuation throughout the year. **(Remains in 2007 Scorecard)**
6. Coaches equipped for wheelchair accessibility – coaches with built-in chair lifts, which are currently in service. **Variance:** *Because of a change in Gross Vehicle Weight restrictions, a 22-seat coach, which was planned to be accessible, could only be ordered with a bathroom or a lift, but not both. A bathroom was seen as the higher priority, so that coach did not have a lift. This problem will be corrected in 2007.* **(Remains in 2007 Scorecard)**
7. Response time to customer complaints and inquiries – the average number of working days it takes to respond to significant written, verbal or electronic communications from the public, or the Minister's office. **(Removed from 2007 Scorecard)**
8. Interest group meetings – industry or client groups or NGOs. Meetings took place with Regina Police Service, Core Community Group, Regina, SAHO and Yorkton Housing Authority. **(Removed from 2007 Scorecard)**

We Are A Good Corporate Citizen:

1. Minimum number of agents – the private business operators who act on our behalf outside of Regina, Saskatoon and Prince Albert. This number fluctuates throughout the year.

(Removed from 2007 Scorecard)

Buy Saskatchewan measure includes all monies paid to Saskatchewan vendors through the accounts payable system, in addition to the commissions retained by agencies and company pension remittances to Saskatchewan Pension Fund Managers. **Variance:** *Much higher than target due to purchases associated with construction of the new Regina facility. (Remains in 2007 Scorecard)*

2. Training opportunities within the company, aimed at building a future workforce in the bus, or related industry. Includes mostly Gradworks placements currently. Numbers are cumulative. **Variance:** *STC was able to accommodate more GradWorks students than was originally anticipated.*

(Remains in 2007 Scorecard)

3. Unique web page hits – number of unique visits to our web page, counted quarterly by NetTracker Software and reported cumulatively. **Variance:** *Outcome was significantly higher than target. Perhaps the target was set too low.*

(Removed from 2007 Scorecard)

Point of sale technology – STC uses an electronic ticketing system, "Gateway" which has limits, but there appears not to be an industry standard service at this time.

(Removed from 2007 Scorecard)

4. Percentage of new hires from federally- and provincially-designated groups – as defined in the federal *Employment Equity Act*. These definitions are similar to those used by the Saskatchewan Human Rights Commission, with one exception – the SHRC tracks women in non-traditional roles, while the Federal standard is simply women in the workplace. STC is federally-regulated and must report its employment equity statistics to Human Resources and Social Development Canada. These numbers are reported cumulatively, but numbers will vary within each of the four groups (ie: in one quarter, the number for visible minorities might be below target and above during the next quarter). The final report represents the number of employees hired cumulatively during the year. **Variances:** *Overall percentage was above target as STC was able to hire more Aborigines and visible*

minorities than anticipated. The company takes every opportunity to hire from targeted groups. The company did not meet its goal for hiring for persons with disabilities. This could be for a number of reasons – there were fewer applicants; there were fewer applicants which fit our job requirements, or there were fewer applicants who chose to self-declare a disability.

(Removed from 2007 Scorecard)

Percentage of representation in overall workforce – the same definitions apply to the overall percentage of employees from targeted group in the overall STC workforce as of December 31, excluding only casual employees. **(Remains in 2007 Scorecard)**

We Are A Fiscally Responsible and Accountable Company:

1. Grants received – records the amount of the approved capital and operating grants, which STC has taken. The amounts are cumulative during the year. **(Removed from 2007 Scorecard)**

2. Subsidy per mile – This calculation is the net difference between the Passenger Expense per mile and Passenger Revenue per mile.

Passenger Revenue per mile is calculated as the total Passenger Revenues per the monthly detailed financial statements divided by the total Scheduled Miles and Service Miles. Passenger Expense per mile is calculated as the total Passenger Expenses per the monthly detailed financial statements divided by the total Scheduled Miles and Service Miles. **(Remains in 2007 Scorecard)**

3. Non-core revenues – anything other than the revenue from carrying passengers or freight. This can include charters, bus maintenance for other companies, advertising, or leasing of space. **Variance:** *2006 saw a large drop-off from 2005 charter revenues. 2005 was an extraordinarily successful year for charters because of the Centennial Year festivities and the Canada Summer Games held in Regina.*

(Removed from 2007 Scorecard)

4. Meet or exceed all sector-wide CIC requirements for disclosure in our Annual Report, using industry standards and best practices, and measuring how the information is perceived by auditors, both STC External Auditors and the Provincial Auditor.

(Removed from 2007 Scorecard)

5. Meet any legal or regulatory requirements from such bodies as the Canadian Human Rights Commission, the Labour Standards Board, Workers' Compensation Board, etc.) Citations from these groups are often made public in various ways.
(Removed from 2007 Scorecard)
6. Meet or exceed all Board governance requirements. is based on a list of best practises for Board Governance as defined by the Investment Bankers' Association of Canada, and measured against Board performance throughout the year, as well as approved Board Terms of Reference. (checklist found elsewhere in this report.)
(New in 2007 Scorecard)
7. Keep operating grant from shareholder as low as possible reflects the operating grant received from CIC as a percentage of overall expenditures (excluding depreciation) for the year, to demonstrate how much the company relies on self-generated finances to perform its tasks, compared to grants. **(New in 2007 Scorecard)**

We Are A High Quality Employer:

1. An employer of choice – our current employees are happy, and others seek us out. We measure employee contentment with a voluntary-return survey every second year.
(Remains in 2007 Scorecard)

Resumes which arrive in head office when we are not advertising a vacancy, cumulative to the end of the year; **(Removed from 2007 Scorecard)** and those who check our website for job postings tell us how many people are interested in working for us, cumulative to the end of the year. **Variance:** *In this case and the preceding one, results far exceeded targets. It is likely that targets were set too low.*
(Removed from 2007 Scorecard)
2. Pay equity – requires baseline evaluation of every job within the Government framework of developing a joint union/management plan and implementation plan. STC has not been able to reach a joint agreement with the union to this point.
(Removed from 2007 Scorecard)

3. Lost-time accidents – where an accident leads to an employee being off work as accounted by accepted WCB claims. Because our employee group is so small, one or two accidents can cause a wide swing in these numbers. Numbers are reported as a percentage increase or decrease in WCB claims at year end. **Variance:** *This represents an overall increase of two claims, 2006 compared to 2005. Accidents do continue to happen in the workplace, but the idea behind safety training is to address this.* **(Remains in 2007 Scorecard)**
4. Safety training number of staff attending primarily in-house training sessions in such areas as hazardous materials handling, CPR, first aid, or proper lifting techniques. **Variance:** *The outcome was higher than the target as STC was able to offer more training sessions during the year than had been anticipated.* **(Removed from 2007 Scorecard)** Customer service training as referred to in point 4, "We meet the needs of our customers."
(Removed from 2007 Scorecard)
5. Based on both management and union working within, and respecting the CBA. Records the percentage of grievances that are satisfactorily resolved internally (the number of grievances which are not in arbitration compared to the cumulative number of grievances received, reported quarterly and the final figure is at year-end), **(Removed from 2007 Scorecard)** and the number of joint committees which are established. In 2006, that included three Occupational Health and Safety Committees, which meet regularly, an Anti-Harassment Committee, which meets as required, and met more than once in 2006, the Wellness Committee, which met once in the year, the Equity Employment Committee, which met once, the Runs Committee, which met twice, and the Standing Committee on Union/Management Relations, which met once.
(Removed from 2007 Scorecard)

6. Promote a safe workplace as measured by the number of employees each year who receive safety training, be it CPR, proper lifting, hazardous material handling, first aid, anti-violence, anti-harassment, etc. **(New in 2007 Scorecard)**
7. Career-enhancing training for employees is measured by employees who receive technical training, such as customer service, skills upgrading, specialty service (harassment investigation, etc.), new technology training, etc. as well as professional development courses and seminars offered by learning institutions or recognized agencies such as the Conference Board of Canada. **(New in 2007 Scorecard)**

We Are Improving and Innovating:

1. Contracts with other agencies, such as the universities or the Saskatchewan Indian Gaming Authority to provide services or partner in the development of new services. **(Remains in 2007 Scorecard)**
2. Partnerships with related industries, whether to improve the delivery of existing services or to develop new services in conjunction with these companies. Tourism industries such as casinos and excursion companies are a good example. **Variance:** *Opportunities for partnerships declined in 2006 from 2005, which was the Centennial Year. STC will continue to aggressively pursue such partnerships.* **(Remains in 2007 Scorecard)**
3. "Green fuel" – use fuel that burns cleaner and produces fewer harmful emissions, in STC's case, bio-diesel fuel **(Remains in 2007 Scorecard)**
Also measured is the current age of the fleet, as newer vehicles are viewed as being more fuel efficient. **(Removed from 2007 Scorecard)**
Promoting bus travel as environmentally-friendly: baseline of public acceptance of the premise to be established in 2007, and a program developed through advertising to support the premise. **(New in 2007 Scorecard)**
4. Building customer base is defined by the growth in passenger numbers using bus service, as measured on a year-over-year basis. **(New in 2007 Scorecard)**
5. Customer satisfaction with service in our depots, as measured by the response to questions asked during the in-depot summer customer satisfaction surveys, rating service as average, good or excellent. Services surveyed were the services of the ticket agent, schedule display, vending machines, ATMs/lockers, and restaurant services. **Variance:** *results were 13 per cent above target as this was an exclusive survey targeted at the main depots in Prince Albert, Saskatoon and Regina.* **(Removed from 2007 Scorecard)**
Customer satisfaction with the cleanliness of our depots, as measured by the response to questions asked during the on-board summer customer satisfaction surveys, rating cleanliness as average, good or excellent. **(Removed from 2007 Scorecard)**

Passages

In the year 2006, the STC family lost some of its members. Some of these passages were a time of celebration, and some were a time of mourning. All took a little piece of the company with them.

Retirees:

Lyle King, Motor Coach Operator, Saskatoon, retired January 5, 2006 with 31 years of service.

Ray Hancock, Motor Coach Operator, Saskatoon, retired February 25, 2006 with 17 years of service.

Ron Parenteau, Service Attendant, Saskatoon, retired March 31, 2006 with 35 years of service.

Al Williams, Motor Coach Operator, Prince Albert, retired March 31, 2006 with 27 years of service.

Shelton Laframboise, Motor Coach Operator, Saskatoon, retired May 31, 2006 with 24 years of service.

Jack Lapsiuk, Motor Coach Operator, Saskatoon, retired October 14, 2006, with 24 years of service.

Robert Korpan, Motor Coach Operator, Saskatoon, retired December 23, 2006, with 22 years of service.

In Memoriam:

Ron Vey, Express Service Attendant 2, Saskatoon, passed away September 10, 2006.

Dave Stephenson, Express Service Attendant 1, Regina, passed away September 21, 2006.

Senior Management

Saskatchewan Transportation Company

Head Office:

2041 Hamilton Street
Regina, Saskatchewan
S4P 2E2

Phone: (306) 787-3347

www.stcbus.com

President and CEO

Ray Clayton

Chief Financial Officer

Shawn Grice

Senior Director
Customer Services and Operations

Nial Kuyek

Director
Human Resources and Labour Relations

Ingrid Reid

Director
Communications and Strategic Planning

John Millar

Director
Information Technology

Brad Dewald

Manager
Business Development
and Operations (South)

Dean Madsen

Manager
Operations (North)

Harold Matthies

Manager
Maintenance

Carl Clark

If you would like additional copies of this report, please contact John Millar at (306) 787-6807, or e-mail jmillar@stcbus.com.

This document can be viewed at the STC website: www.stcbus.com



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**Saskatchewan Transportation Company
Financial Statements
December 31, 2006**



Years 1946 - 2006

Saskatchewan Transportation Company Financial Statements

December 31, 2006

Management's Responsibility for Financial Reporting

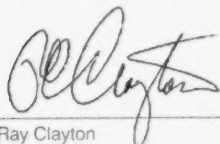
Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

Meyers Norris Penny LLP, the Company's external auditors, have examined the December 31, 2006 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,

A handwritten signature in black ink, appearing to read 'Ray Clayton', written over a horizontal line.

Ray Clayton
President & CEO

A handwritten signature in black ink, appearing to read 'Shawn Grice', written over a horizontal line.

Shawn Grice
Chief Financial Officer

February 2, 2007

**To the Members of the Legislative Assembly
Province of Saskatchewan**

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saskatchewan Transportation Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyer Norris Penny LLP

Regina, Saskatchewan
February 2, 2007

Chartered Accountants



**Saskatchewan Transportation Company
Statement Of Financial Position**


As at December 31

	2006	2005
	(Thousands of Dollars)	
ASSETS		
Current		
Cash	\$ 1,788	\$ 1,157
Accounts receivable	1,546	1,686
Inventories	337	353
Prepaid expenses	162	104
	3,833	3,300
Property, plant and equipment (note 5)	20,501	17,888
	\$ 24,334	\$ 21,188
LIABILITIES AND PROVINCE'S EQUITY		
Current		
Accounts payable and accrued liabilities	3,024	2,383
Deferred capital grant (note 6)	11,020	8,993
Province of Saskatchewan's Equity		
Retained earnings	10,290	9,812
	\$ 24,334	\$ 21,188

See accompanying notes

On behalf of the Board


Director


Director

Saskatchewan Transportation Company
Statement of Operations and Retained Earnings

Year ended December 31

	2006	2005
	<i>(Thousands of Dollars)</i>	
REVENUE		
Express services	\$ 6,932	\$ 6,737
Passenger services	7,452	7,102
Other revenues	1,082	1,032
Gain (Loss) on disposal of property, plant and equipment	27	(12)
	15,493	14,859
EXPENSES		
Operating	16,630	15,790
Administration	2,827	2,555
Amortization	1,781	1,952
	21,238	20,297
Loss before the following	(5,745)	(5,438)
Operating grant <i>[note 7]</i>	4,000	3,500
Capital grant <i>[note 6]</i>	1,318	1,290
Net loss	(427)	(648)
Retained earnings, beginning of year	9,812	8,348
Grant funding recognized related to purchase of land and related costs <i>[note 6]</i>	905	2,112
Retained earnings, end of year	\$ 10,290	\$ 9,812

See accompanying notes

Saskatchewan Transportation Company
Statement of Cash Flows

Year ended December 31

	2006	2005
	(Thousands of Dollars)	
OPERATING ACTIVITIES		
Net loss	\$ (427)	\$ (648)
Items not involving cash:		
Amortization	1,781	1,952
(Gain) Loss on disposal of property, plant and equipment	(27)	12
Recognition of capital grant	(1,318)	(1,290)
Net change in non-cash working capital [note 9]	(36)	(433)
Cash used in operating activities	(27)	(407)
INVESTING ACTIVITIES		
Additions to property, plant and equipment [note 9]	(3,729)	(3,566)
Proceeds on disposal of property, plant and equipment	137	75
Cash used in investing activities	(3,592)	(3,491)
FINANCING ACTIVITIES		
Capital grant received	1,500	1,450
Grant funding received for land improvements and for construction costs related to the new Regina head office and depot	2,750	2,450
Cash provided by financing activities	4,250	3,900
Increase in cash	631	2
Cash, beginning of year	1,157	1,155
Cash, end of year	\$ 1,788	\$ 1,157

See accompanying notes

1. Status of the Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. The Company's powers, duties and conditions were affirmed in 1993 by Order in Council #5. The Company is continued under *The Crown Corporations Act, 1993*.

The accounts of the Company are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The Company is a Provincial Crown Corporation and therefore not subject to federal or provincial income tax.

The Company's passenger rates are subject to rate regulation by the Motor Carrier Committee of the Saskatchewan Highway Traffic Board, which is a related party. The committee reviews applications for operating authority certificates under the *Traffic Safety Act*, and fixes rates and conditions of carriage for holders of these certificates or licenses of authority. STC holds operating authority on the routes it operates; but must seek approval for passenger rate changes from the Motor Carrier Committee.

2. Operations And Financing

In 2000, STC received cabinet direction with regard to its mandate. Under that direction and as a matter of public policy, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. STC will ensure that its commitment to servicing the province is kept uppermost in all of its planning. As a result of the public policy rationale for the operation of certain non-commercial routes, STC continues to be dependent upon CIC for its funding.

By way of Orders in Council #930/2005 and #931/2005 the Company was authorized to obtain grant funding up to \$6.9 million [2005 - \$5.8 million, Orders in Council #858/2004 and #859/2004] in total for both capital and operating requirements excluding capital funding related to the new Regina head office and depot. During the year, the Company requested and received \$5.5 million of the \$6.9 million authorized [2005 - \$4.95 million and \$5.8 million respectively].

By way of Orders in Council #568/2005, #906/2005 and #4/2007 the Company is authorized to obtain grant funding up to \$25.5 million for the acquisition of land and for construction costs related to the new Regina head office and depot. During the year, the Company requested and received \$2.75 million [2005 - \$2.45 million] of the \$25.5 million authorized. The remaining \$20.3 million will be requested as needed during the new facility project.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Assets held for sale are segregated and no longer amortized and are recorded at carrying amounts that approximates fair value. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drivetrain repairs, mechanical repairs and preventative maintenance are expensed as incurred.

Operating Grant Revenue

Operating grants from CIC are recognized as revenue when received.

Capital Grant Revenue

Capital grants related to depreciable property are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

The entire portion of the grant related to the acquisition of land and related costs is recognized as a direct increase in retained earnings.

Revenue Recognition

Passenger and freight transportation revenue is generally recognized upon the completion of service. Interline passenger and freight transportation service is treated as being complete when the passenger or parcel is turned over to the connecting carrier.

Other revenues, including charter, space leasing, bus advertising, vending, and maintenance, are recognized when earned.

Amortization

Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of property, plant and equipment over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	5 to 15 years
Other equipment	3 to 10 years

Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property, plant and equipment. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Recent Accounting Pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006.

Section 3855 Financial Instruments – Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 Financial Instruments – Disclosure and Presentation discusses the presentation and disclosure of these items. The application of hedge accounting is covered in Section 3865 Hedges. Section 1530 Comprehensive Income establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to hedges or other derivative instruments, outside of net income, in a statement of comprehensive income. Section 3251 Equity establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. However, the Company does not expect the adoption of these new standards to have a material impact on its financial statements.

Long-lived assets

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in net loss for the year.

4. Financial Instruments

Fair Value

The Company as part of its operations carries a number of financial instruments which includes cash, accounts receivable, and accounts payable and accrued liabilities. The carrying amount of the Company's financial instruments approximates their fair value due to the short-term maturities of these items.

Credit Risk

The Company is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance. The Company monitors the credit risk and credit rating of customers on a regular basis. The maximum credit risk is \$1.546 million, the fair value of the accounts receivable.

5. Property, Plant And Equipment

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
	<i>(Thousands of Dollars)</i>			
Land	\$ 4,918	\$ —	\$ 4,918	\$ 4,046
Buildings	13,245	6,474	6,771	4,715
Vehicles	15,560	7,606	7,954	8,245
Other equipment	6,083	5,225	858	844
	\$ 39,806	\$ 19,305	\$ 20,501	\$ 17,850
Assets held for sale	33	33	-	38
	\$ 39,839	\$ 19,338	\$ 20,501	\$ 17,888

At December 31, 2006, the Company has assets that are no longer in service and are held for sale. The carrying amount of these assets approximates fair value and has been segregated above.

Capital expenditures incurred during the year totalling \$2.32 million [2005 - \$181 thousand] for costs related to the new Regina head office and depot are included in buildings. These costs will not be amortized until the new facility is in use.

6. Capital Grant

Order in Council #930/2005 authorized the Company to obtain grant funding up to \$1.9 million for capital requirements not including capital requirements for 2006 related to the new Regina head office and depot. During the year, the Company obtained \$1.5 million [2005 - \$1.45 million, Order in Council #858/2004] from CIC.

Orders in Council #568/2005, #906/2005 and #4/2007 authorized the Company to obtain grant funding up to \$25.5 million for the acquisition of land and for construction costs related to the new Regina head office and depot. During the year, the Company obtained \$2.75 million [2005 - \$2.45 million] from CIC. The remaining \$20.3 million will be requested as needed during the new facility project.

The entire portion of the grant related to the acquisition of land and related costs is recognized as a direct increase in retained earnings.

Deferred capital grant consists of the following:

	2006	2005
	<i>(Thousands of Dollars)</i>	
Deferred capital grant, beginning of year	\$ 8,993	\$ 8,495
Capital grant received	1,500	1,450
Grant funding received for land improvements and for construction costs related to the new Regina head office and depot	2,750	2,450
Grant funding for land recognized	(905)	(2,112)
Capital grant revenue recognized	(1,318)	(1,290)
	\$ 11,020	\$ 8,993

7. Operating Grant

Order in Council #931/2005 authorized the Company to obtain grant funding up to \$5.0 million for operating requirements in 2006. During the year, the Company obtained \$4.0 million [2005 - \$3.5 million, Order in Council #859/2004] from CIC.

8. Pension Plans

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency. The Company's contributions to this plan which were expensed during 2006 were \$29 thousand [2005 - \$44 thousand]. The other is the Capital Pension Plan which is a defined contribution plan sponsored by CIC. The Company's contributions to this plan which were expensed in 2006 were \$497 thousand [2005 - \$457 thousand]. All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

9. Net Change in Non-cash Working Capital

	2006	2005
	<i>(Thousands of Dollars)</i>	
Decrease (increase) in:		
Accounts receivable	\$ 140	\$ (187)
Inventories	16	(27)
Prepaid expenses	(58)	47
	\$ 98	\$ (167)
Increase (decrease) in:		
Accounts payable and accrued liabilities	641	(77)
Less: increase related to investing activities	(775)	(189)
Accounts payable and accrued liabilities related to operations	\$ (134)	\$ (266)
	\$ (36)	\$ (433)

10. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to the Company by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2006	2005
	<i>(Thousands of Dollars)</i>	
Accounts receivable	\$ 136	\$ 225
Accounts payable	105	83
Express revenues	575	594
Other transportation services revenues	479	476
Operating and administration expenses	1,629	1,417

In addition, the Company pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. Purchase Commitment

During 2006 the Company committed to purchase three 22 passenger coaches for \$396 thousand. These coaches are expected to be delivered in the first quarter of 2007.

As of December 31, 2006, the Company has an outstanding commitment for \$17.9 million related to the construction of the new facility.

12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.



